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SUBJECT: BABIL'S BUDGET EXECUTION RATE HIGH BUT NEEDS IMPROVED  
ALLOCATION FROM CENTRAL GOVERNMENT

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¶1. (U) Summary: Budget execution rates for Babil Province are among the highest in Iraq, but is not likely to significantly improve absent central government reform of the budget process that allows earlier and more predictable release of funding during the fiscal year. Pressure to increase the rate of spending is not likely to produce results as commitments are already running ahead of the availability of funds. Provincial budget formulation could be strengthened and project selection systematized. The PRT is exploring a closer partnership to build capacity in this area. End Summary.

¶2. (U) Since the implementation of the Accelerated Reconstruction and Development Program (ARDP) fund in 2006, capital investment budget execution rates for Babil Province have consistently been among the highest in Iraq and continue to improve, especially in relation to the investment allocations actually released by the Ministry of Planning and Development Cooperation (MOPDC) and the Ministry of Finance (MOF) and received by the Province.

¶3. (U) Provincial officials have been diligent in their efforts to commit and expend ARDP funds, as well as to request replenishments in a timely manner. For 2006, Babil Province expended 87% of the allocations received, improving to 103% for 2007 (carry-over funds allowed the Province to expend more than it received in 2007). As of 31 July 2008, this measure stands at 96%. The province has consistently and repeatedly submitted project cards and release applications, but without apparent effect on the timing of replenishments - often they get no response at all from Baghdad.

¶4. (U) In relation to commitments (the ratio of the value of executed contracts to total budgeted allocations), Babil Province's record for 2006 and 2007 is 100%. The mid-year 2008 rate is already at 80%.

¶5. (U) Babil's success in relation to budget execution is largely attributable to: effective procurement and project management by its Provincial Reconstruction and Development Committee (PRDC); the positive relationship the PRDC has with MOF officials at the provincial level; and the financial and construction capacity of area contractors. The PRDC and the Project Management Unit (PMU) in the Governor's Office have efficiently pursued the solicitation and execution of contracts, while the PRDC's cooperative relationship with MOF officials has eliminated many potential obstacles in a complex budgetary process. Area contractors have also been willing and financially able to initiate project construction without

advances or mobilization payments and to continue project construction even when progress payments have been slow or delayed.

¶6. (U) The most significant remaining barrier to improving budget execution rates is the time it takes MOF and MOPDC to release the capital investment funds to the Province. As of mid-year 2008, Babil Province had received only 20% of its total 2008 allocation.

¶7. (U) Since the inception of the ARDP fund, provincial allocations have consistently been released by the MOPDC and MOF in a slow and unpredictable manner. For example, during 2007, Babil Province received 10% of its total allocation in March, 20% in June, 10% in August, and the final 60% on December 31 (the last day of the fiscal year). Thus far in 2008, an initial 20% was received in April, with a second tranche of 40% released in August. As of the date of this cable, Provincial officials have no indication as to when they will receive the remaining 40% of their 2008 allocation or whether it will be received in one or more additional releases before the end of the year.

¶8. (U) Under pressure on budget execution (not least by the PRT), Babil Province has entered into contracts and committed funds prior to those funds actually being released by the MOPDC and MOF. Ironically, the USG does not normally allow its own agencies to commit funds before they are appropriated and allotted.

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¶9. (U) ARDP Funds Received and Committed, 2008

a.	March:	Received = 0%
	Committed = 47%	
b.	April:	Received = 20%
	Committed = 61%	
c.	May	Received = 20%
	Committed = 68%	
d.	June:	Received = 20%
	Committed = 78%	
e.	July:	Received = 20%
	Committed = 80%	
f.	August:	Received = 60%
	Committed = 89%	

¶10. (U) This slow and jerky pace also applies to the 2008 supplemental budget. In March-April 2008, the MOF informed Babil Province it would receive between 250 and 300 BID in supplemental allocations by mid-year, and the Province proceeded with its budgetary planning on this basis. As of September 15, no funds had been released and no new date had been given for when they might be.

¶11. (U) Under these circumstances, Babil Province has run into a wall in its efforts to improve its budget execution. Implementation of a system of predictable quarterly releases, taking into consideration the liquidity needs of the GOI, as

well as the budgetary performance of each province, is the single most important action that could be taken to improve provincial delivery of the goods and services paid for by ARDP. Decentralization of the procurement process by the GOI is another action that could significantly improve government expenditure of ARDP.

¶12. (U) In addition to these two critical pieces, the PRT and Provincial Council have identified several other areas in the budget cycle that could use some work. Budget formulation is weak, project selection is haphazard, and the burden of ARDP is dramatically increased by the proliferation of smaller projects. Existing capacity-building efforts to improve the ability of provincial budgetary staff to perform the required technical and economic project feasibility studies should result in improvement of the procurement process, and reduce the time and effort involved. The PRT plans to explore the feasibility of assigning one of its staff with budget expertise into provincial budget office to help improve performance in this area. Better feasibility studies would result in more detailed tenders and specifications, reducing the need for project scope modifications and related conflicts with contractors. If combined with a more rational allocation of funds from the GOI, these actions would improve the quality of budget execution.

¶13. (U) The continued focus on budget execution rates, combined with steadily increasing funding levels, is stretching provincial resources to the limit, and will eventually have an adverse impact on the whole process, including budget execution.

The multiplying projects and tenders exceed the implementation capacity of provincial procurement and project management staff, as well as the absorptive capacity of the construction industry.

In short, a situation is being created where provincial officials are attempting to contract and execute too many projects at any one time; resulting in more projects of substandard quality and financial and monitoring vulnerability. The slow and unpredictable releases increase the pressure, since the bulk of the funds arrive during the last half, if not at the end, of the year. Budget execution is affected by various factors, some indirectly related to the budget process, and these will also need to be addressed if there is to be improvement in the capacity of the Babil authorities to effectively deliver essential services and infrastructure.

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